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RIATA RESOURCES LTD.

Riata

ANNUAL REPORT 1995

CORPORATE PROFILE

Riata Resources Limited is an emerging company active in the exploration, development and production of crude oil and natural gas. The Company's core areas of activity are located in northeastern, northwestern and central Alberta.

Established as a private company in mid-1993, Riata's shares became publicly traded in March 1995 on The Alberta Stock Exchange under the symbol "RRR".

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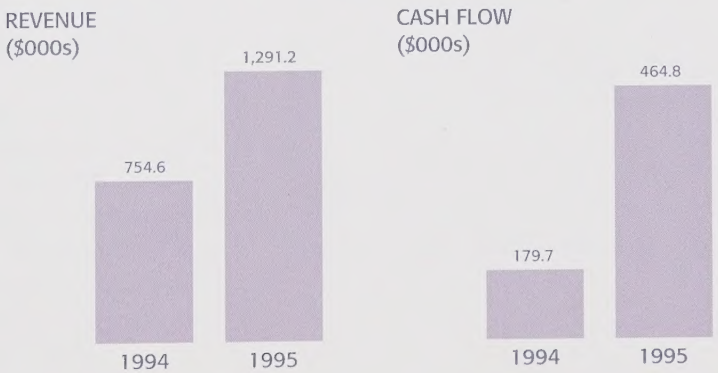
ANNUAL GENERAL MEETING

The Annual General Meeting of Riata Resources Ltd. will be held in the Cardium Room of the Calgary Petroleum Club, Calgary, Alberta on Wednesday, May 29, 1996 at 3:00 pm. All shareholders and other interested parties are invited to attend.

RIATA RESOURCES LTD.
Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

HIGHLIGHTS

(except per share amounts)	**1995**	1994	% Change
FINANCIAL			
Revenue (net of royalties)	**1,291,155**	754,645	+71
Cash flow	**464,795**	179,652	+159
Per share	**0.04**	0.02	+100
Capital expenditures	**2,653,527**	4,290,061	–38
Shareholders' equity	**2,416,294**	3,896,665	–38
OPERATING			
Average Production			
Crude oil (bbls/d)	**62**	0	+100
Natural gas (mcf/d)	**2,575**	1,655	+56
Barrels of oil equivalent per day	**320**	166	+93
Reserves (proven and probable)			
Crude oil (mbbls)	**669.1**	0	+100
Natural gas (bcf)	**4.6**	8.5	–46
BOE (natural gas @ 10:1) (mbbls)	**1,124.8**	853.5	+32
Wells drilled (gross)	**4**	7	–43
Land holdings (thousands of acres)			
Gross	**46,240**	50,193	–8
Net	**38,285**	22,967	+67



MESSAGE TO SHAREHOLDERS

During its second full year of operations, Riata Resources Ltd. increased its production, reserves and revenues and consolidated its land holdings over the previous year. In 1995, the Company set out to selectively acquire additional producing and exploratory properties to add to its growing asset base. We achieved this objective by acquiring three new core areas and expanding our asset mix to contain both oil and gas. In addition, Riata expanded its position in the core area of Hamlin. Each of these newly acquired areas is characterized by high working interests, operatorship and additional drilling potential.

New Core Areas Added in 1995

Riata's goal in 1995 was to continue to acquire low to medium risk, high working interest, operated properties, with future drilling potential. This goal was met in 1995 with the following purchases:

NORTHWESTERN ALBERTA

Earring/Blueberry Area

In February 1996, Riata closed the last of two separate transactions to acquire a 100 percent working interest in 8,640 acres of land which includes a producing oil pool and exploration lands in the Peace River Area, Alberta. The exploration lands contain potential in the Charlie Lake, Belloy and Kiskatinaw zones. Riata has identified several plays in Earring which it will pursue in 1996 and beyond.

In conjunction with the Earring purchase, Riata acquired a 75 percent working interest in 1,920 acres of land offsetting a well which has produced 29 billion cubic feet to date. Based on remaining reserves in this well, the Riata lands have significant potential in the Kiskatinaw and Belloy zones. The Blueberry area has also been identified as having Charlie Lake potential.

Elmworth Area

Effective April 1, 1995, through an asset exchange agreement, Riata acquired an operated interest in a producing oil pool in the Elmworth area of Alberta, south of Grande Prairie. Riata has identified several locations in this area and drilling will commence in 1996.

CENTRAL ALBERTA

Nevis Area

Effective January 1, 1995, Riata added another core area with the purchase of Nevis. Riata rationalized its interest by selling a 25 percent non-operated interest at Chigwell and vending 50 percent of the Nevis property to a strategic industry partner.

One horizontal well and one re-entry were completed in 1995. The original leg flowed at a stabilized rate of 140 barrels of oil equivalent per day. Upon re-entry, the well was potentially damaged and is not currently producing. Riata believes that this property has significant reserves worthy of future development in the Basal Quartz and Belly River zones.

Expansion of Existing Core Area

EASTERN ALBERTA

Hamlin Area

Riata owns an average 90 percent working interest in 47 sections of land in the Hamlin area as well as a 100 percent working interest in a gathering system and booster compressor and a 22.2 percent interest in the Hamlin gas plant. The Hamlin property produces sweet gas from the Colony formation. Gas is gathered and processed at the Hamlin gas plant.

Riata acquired an additional 15 sections (net 60 percent) south of the Company's existing holdings in two separate acquisitions during 1995. The acquisitions were fundamental in adding further drilling potential and infrastructure to Riata's current operated base in the Hamlin area.

With Riata's extensive seismic base, land holdings and infrastructure, the Hamlin area holds significant further potential for shallow gas development.

Financial and Operating Results

Despite the decline in natural gas prices in 1995, Riata's activity during the year contributed to volume and cash flow growth:

- revenues from the sale of crude oil and natural gas increased to $1,219,255 from $627,509 in 1994.
- cash flow increased to $464,795 ($0.04 per share) from $179,652 ($0.02 per share) in 1994.
- average daily production grew to 320 barrels of oil equivalent per day, a 93 percent increase over 1994.
- exit production at December 31, 1995 was 417 barrels of oil equivalent per day.
- net land holdings grew from 22,967 to 38,285 acres, an increase of 67 percent.

A writedown of $1.7 million was taken in 1995 as result of the large drop in natural gas prices from the previous year-end, and a revision to the Company's Hamlin area gas reserves. Despite calculated reserve write-downs, Riata was successful in increasing its reserve base and asset value through acquisition activities.

Gas Marketing

With continued changes to the gas marketing environment occurring including ever increasing credit requirements, thinning of trade margins, and Riata's conservative risk profile, the Company has decided to cease activities in gas marketing.

Financing

In October 1995, in preparation for the drilling of the second horizontal leg at Nevis and two gas tests at Hamlin, Riata issued 700,000 flow-through common shares for net proceeds of $350,000. The remainder of Riata's drilling, acquiring and operating capital was sourced from cash flows and its existing $2.0 million loan facility with the Royal Bank.

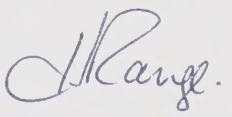
Outlook for 1996

In 1995, Riata accomplished its primary goal of acquiring producing properties with future exploitation and exploration potential. We focused on positioning the Company for future growth with the acquisitions of a strategic land and production base at Earring/Blueberry, Elmworth, Nevis and additional interests at Hamlin. Through our efforts in 1995, Riata holds a strong mix of medium depth oil projects and shallow gas development projects as well as exploration of deep Kiskatinaw gas. We have identified numerous potential drilling locations through detailed seismic analysis and the Company is planning to drill approximately six wells in 1996.

Looking forward, Riata has assembled the essential building blocks required for significant production and revenue growth. Our solid inventory of prospects, combined with the dedicated efforts of our employees, will ensure Riata's long-term growth.

At this time, we would like to thank the Company's Board of Directors for their ongoing guidance and counsel over the past year. We would also like to thank you, our shareholders, for your continued support and we look forward to reporting our progress and achievements over the course of 1996.

Submitted on Behalf of the Board of Directors,



HARRY H. RANGE
President and Chief Executive Officer

J. DAN FRY
Vice President and Chief Financial Officer

April 16, 1996

OPERATIONS REVIEW

Stry

The Stry area has been the Company's core gas area since 1994. During 1995 Riata closed two acquisitions in this area comprised primarily of undeveloped acreage and gathering systems, accessing the Company's largest gas well. Two wells were drilled in the Stry area in 1995 resulting in one gas well and one dry and abandoned well.

Further work was completed in 1995 to evaluate the potential in this area and, as a result, the Company now has numerous potential drilling locations on its existing land base. These wells are all in close proximity to the gathering system and are relatively inexpensive to drill.

As natural gas prices improve, significant new reserves and deliverability can be added quickly.

Earring/Blueberry

The Earring area was acquired through two separate acquisitions in late 1995 and early 1996. Current production at Earring is 24° API oil from the Charlie Lake zone. The Charlie Lake oil pool has received approval for downspacing from the Alberta Energy and Utilities Board. Riata has identified up to eight potential in-fill locations in the existing producing pool. One well in this area has been successfully reworked.

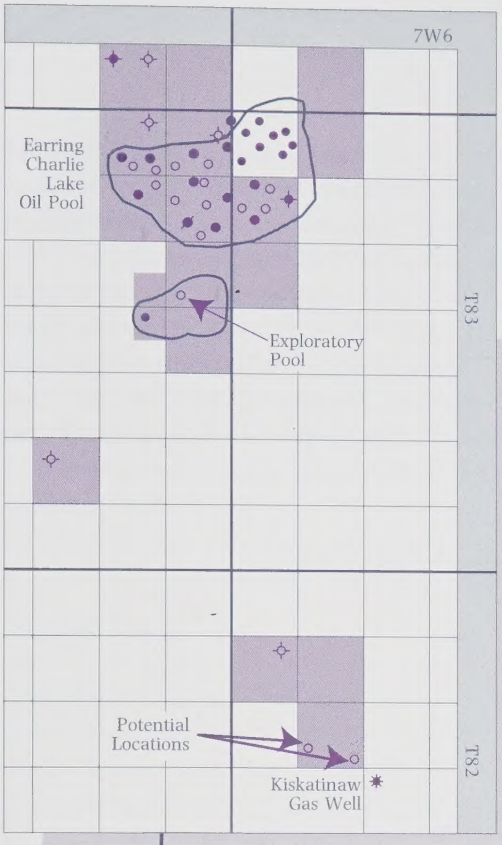
The Earring acquisition included 10,080 net acres of land with several areas of multi-zone potential. Development drilling on the edge of the existing producing oil pool and an additional exploration pool have been identified for Charlie Lake oil potential.

At Blueberry, Riata owns a 75 percent working interest in a block of three sections directly offsetting an existing Kiskatinaw gas well. This well has produced 29 billion cubic feet of gas to date. The Company reached an agreement with an industry participant on a seismic option basis to drill a potential offset location to this well. Riata has also identified several Kiskatinaw gas prospects on its 100 percent Earring lands.

Elmworth

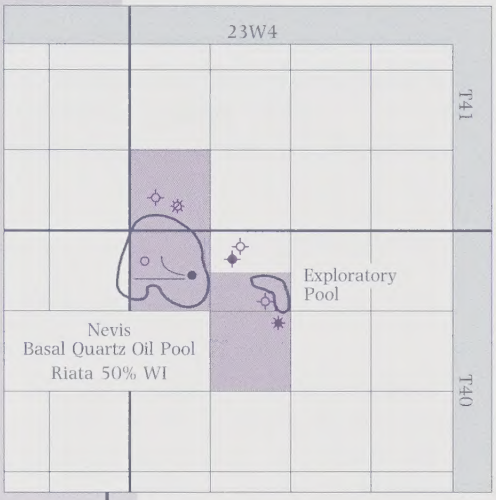
The Elmworth area was acquired in mid-1995 through an asset exchange agreement. In exchange for its interest in the Cache area, Riata acquired a high working interest in the Elmworth property consisting of 38° API Doe Creek operated oil.

Pending approval by the Alberta Energy and Utilities Board, a proposed downspacing application will allow Riata to drill four 100 percent working interest in-fill wells in a section that already contains two producing wells. The Company has identified three other locations on its land base at Elmworth. Riata and other industry participants have also identified the Elmworth Doe Creek pool as a potential waterflood candidate which would considerably enhance recovery of the entire pool. Riata has plans to drill two wells and a possible third well in 1996.

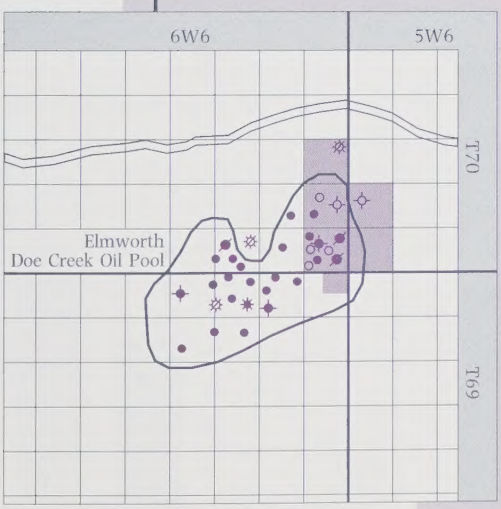


Blueberry/Earring

Hamlin



Nevis



Elmworth

Legend

- Land
- Pipeline
- Gas Well
- Oil Well
- Compression Station
- Suspended Gas Well
- Potential Location

Nevis

Following its acquisition in early 1995, Nevis proved to be an area of significant opportunity for Riata during the remainder of the year. Through a series of transactions, Riata received a 50 percent working interest in a pool for a minimal capital outlay. A three-dimensional seismic program was shot to determine the areas with the greatest production potential.

In September and November 1995, Riata and its partner drilled two horizontal legs to further develop the pool. Reasonable production was established on both efforts; however, the well was damaged during the drilling of the second leg and it is currently shut-in.

These drilling activities further confirmed the reservoir characteristics and production potential. Further work is required to bring these two legs back on production and Riata is planning to drill another well in 1996 to further delineate the pool.

Riata purchased additional land at a crown sale after reviewing seismic data and the Company has identified an additional potential Basal Quartz oil pool on this land. Significant uphole Belly River gas potential has also been identified on the property.

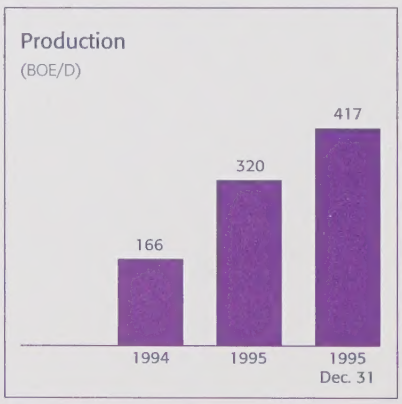
Company Land Holdings

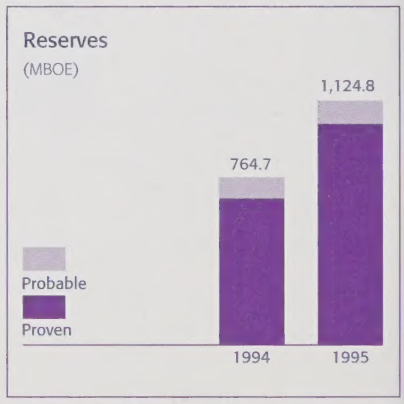
(acres)	Gross	Net
Producing	13,280	10,294
Non Producing	32,960	27,991
Total	46,240	38,285

Reserves Summary

	Crude Oil (mstb)		Natural Gas (mmcf)		MBOE	Net Present Value ($ thousands)		
	Gross	Net	Gross	Net	Net	Undisc.	@ 10%	@15%
Proven Producing	303.5	275.4	3,430.0	2,625.0	537.9	6,794.0	4,884.0	4,327.0
Proven Undeveloped	449.3	384.8	1,571.0	1,004.0	485.2	3,438.0	2,263.0	1,875.0
Total Proven	752.8	660.2	5,001.0	3,629.0	1,023.1	10,232.0	7,147.0	6,202.0
Probable	23.9	8.9	1,278.0	928.0	101.7	628.0	264.0	181.0
Total Proven Plus Probable	776.7	669.1	6,279.0	4,557.0	1,124.8	10,860.0	7,411.0	6,383.0

Note: Net present value of probable reserves have been reduced by 50 percent to account for risk.





MARKETING

Crude Oil

Riata acquired several new sources of crude oil production during 1995 which in turn is sold to crude oil marketing and refining companies. The Company hedged a significant portion of its total crude oil production at a price exceeding $18.00 WTI. Riata recently entered into the largest component of this hedging contract which expires in early 1997 and carries no penalty for underdeliverability. The remainder of Riata's crude oil production is sold at daily pricing which is calculated from the benchmark WTI contract.

Natural Gas

During 1995, Riata acquired undeveloped properties in the Stry area from another industry participant. These properties were under long term contract to Trans Canada Gas Services. As a result of a successful gas well drilled on these lands in November 1995 and a successful recompletion of an additional well, Riata currently sells approximately 750 thousand cubic feet per day to this contract which is a blend of long term and short term pricing. During the first quarter of 1996, this contract averaged $1.48 per thousand cubic feet. The remainder of the Company's production is sold directly into the Alberta spot market at day to day prices.

During 1995, Riata was adversely affected by a very low gas price which was partly due to excess transportation capacity at its Stry receipt point. The Company recently disposed of the majority of this excess capacity and will dispose of the remainder during 1996.

Trading

The Company's natural gas trading efforts received mixed results in 1995. Profitability was positive; however, the Company was not satisfied with its results during the year. With the continued changes occuring in the natural gas marketing environment, Riata has decided to cease activities in natural gas marketing and concentrate strictly on its exploration, acquisition and production activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Riata continued to achieve significant growth in its second year of operations. Production revenues, net of royalties, increased 94 percent to $1,219,255 from $627,509 in 1994. Cash flow from operations increased 159 percent to $464,795 ($0.04 per share) and crude oil production volumes rose 93 percent from 166 barrels per day to 320 barrels per day in 1995. As a result of declining gas prices and reserve revisions at Hamlin in 1995, the Company recorded a write-down of its oil and gas properties of $1,695,000. This contributed to a net loss of $1,887,205 ($0.15 per share) compared to a net loss of $142,348 in 1994 ($0.01 per share). Despite the write-down, Riata's reserve base grew in 1995 to 1.13 MMBOE from 0.85 MMBOE in the previous year.

Revenues and Royalties

Oil and gas revenues, net of royalties, in 1995, increased to $1,219,255, up 94 percent from $627,509 in 1994. Gas revenues were down slightly from $1,100,427 in 1994 to $904,856 in 1995. The increase in gas production from 1.7 million cubic feet per day to 2.6 million cubic feet per day in 1995 was offset by the decrease in gas prices from $1.81 per thousand cubic feet to $0.96 per thousand cubic feet in 1995. Over-contracting of firm transportation in 1995 contributed to the lower gas prices during the year.

As a result of producing property acquisitions and property swaps during 1995, the Company increased its oil production from zero in 1994 to an average of 60 barrels per day in 1995. Since some of these acquisitions became effective at November 1, 1995, their full impact will be more fully reflected in the Company's 1996 results. Based on a crude oil price of $20.63 per barrel in 1995, Riata achieved crude oil revenue of $314,399 compared to nil in 1994.

Income for marketing activities amounted to $71,900 in 1995 compared to $63,586 in 1994.

Royalties were down significantly in 1995 to $147,259 from $477,498 in 1994. This reduction was due to the commencement of gas production from wells drilled in late 1994 which qualify for ARTC incentives and the disposition of high royalty burdened properties through a property exchange.

Operating Expenses

Operating expenses for 1995 rose by 15 percent to $419,523 from $363,999 in 1994, primarily due to increased oil and gas production. On a barrel of oil equivalent basis, operating expenses were reduced by 40 percent, from $6.00 in 1994 to $3.60 in 1995 as a result of asset rationalization and improved operating efficiencies. Based on anticipated oil and gas production increases, operating expenses are expected to rise moderately in 1996.

General and Administrative Costs

Total general and administrative costs increased from $397,454 to $627,990 in 1995 reflecting higher activity levels and additional personnel. The Company continued to capitalize the portion of its general and administrative expenses related to exploration and development activities. In 1995, capitalized general and administrative expenses amounted to $262,026 compared to $187,460 in 1994. With increased oil and gas production in 1996, general and administrative costs, on a per unit basis, are expected to decline.

Interest Expenses

Interest expense was $40,874 in 1995. The Company financed its capital expenditure program in 1995 mainly through bank loans. Since the majority of the Company's capital expenditures were incurred in late 1995, interest expenses were relatively small. With higher bank loans in 1996, interest expenses are expected to increase.

Depletion and Depreciation

Depletion and depreciation expenses increased to $637,000 in 1995 from $302,000 in 1994 as a result of higher production volumes. On a barrel of oil equivalent basis, depletion and depreciation increased 10 percent from $5.00 per barrel in 1994 to $5.50 per barrel in 1995.

During 1995, the Company recorded a write-down of oil and gas properties of $1,695,000. The calculation of the write-down was based on a natural gas price of $1.28 per thousand cubic feet which was Riata's corporate average price-in December 1995.

Income Taxes

In 1995, Riata did not record income tax expenses and the Company has deductions of approximately $5.5 million available to reduce future years' taxable income.

Capital Expenditures

Capital expenditures for the year totaled $2,653,527, down 38 percent from $4,290,061 recorded in 1994. Production acquisitions, net of dispositions, were $1,103,603, while development drilling accounted for $1,066,970. The remaining amount was expended on land acquisitions, seismic, workovers and facilities.

Liquidity and Capital Resources

On March 1, 1995, Riata was amalgamated with Cambridge Oil and Gas Ltd. The Company issued 430,000 common shares in exchange for the cash balance of $138,147. As a result of this amalgamation, Riata became a publicly traded company on the Alberta Stock Exchange. During 1995, 5,227,160 shares were traded at prices from $0.30 to $0.66.

In October 1995, the demand credit facilities were reviewed by the Company's banker. Riata's line of credit remains at $2.0 million, of which $1.0 million had been utilized at year-end.

Under the terms of a flow-through share agreement dated November 1, 1995, the Company issued 700,000 shares at $0.50 per share and the income tax benefits of $350,000 were renounced to the purchasers of these flow-through shares prior to December 31, 1995.

Business Environment and Outlook

The cyclical nature of the oil and gas business was once again demonstrated during fiscal 1995. Natural gas prices recovered somewhat by year end as expected but not by the amount necessary to make gas exploration attractive to those without a long term focus. Riata believes that natural gas prices will continue to improve as they did in early 1996. Prices in the United States are very strong and that demand, together with the high decline rate of Alberta's deliverability, will eventually find the required increase in transport capacity to greatly improve Alberta pricing. Crude oil pricing was reasonably strong in 1995 and management believes this will continue for the remainder of 1996 and beyond. The past year saw a positive environment for acquisitions of oil and gas properties and Riata took advantage of this opportunity. Equity financings were scarce in 1995, a situation which the Company believes will change somewhat in the upcoming year.

The critical component to managing the cyclical nature of the oil and gas business is to understand the patterns that reoccur and therefore be able to accurately forecast upcoming trends and act accordingly. Riata's growth plans will be achieved through a combination of cash flows, limited bank debt, and equity financings as appropriate.

Auditors' Report to the Shareholders

We have audited the balance sheets of Riata Resources Ltd. as at December 31, 1995 and 1994 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

KPMG PEAT MARWICK THORNE
Chartered Accountants

Calgary, Canada
March 15, 1996

Management's Responsibility for Financial Statements

Management recognizes that it is responsible for the preparation of the financial statements, and is satisfied that these statements have been prepared using generally accepted accounting principles and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this report is consistent with that presented in the financial statements. The Company's internal controls and systems are designed to provide reasonable assurance that its assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

External auditors have been appointed by the shareholders of the Company to examine the financial statements. The Audit Committee has reviewed these statements with management and external auditors and has reported its findings to the Directors. The Board of Directors, on the recommendation of the Audit Committee, has approved the financial statements contained in this report.

HARRY H. RANGE
President and Chief Executive Officer
April 16, 1996

J. DAN FRY
Vice President and Chief Financial Officer

Balance Sheets

December 31	**1995**	1994
ASSETS		
Current assets:		
Cash and interest bearing deposits	**$ 0**	$ 797,955
Accounts receivable – marketing	**3,273,716**	4,550,832
Accounts receivable petroleum and natural gas	**327,115**	1,094,221
	3,600,831	6,443,008
Due from officer and employee	**0**	52,571
Oil and gas properties:		
Cost	**6,999,722**	4,346,195
Accumulated depletion and depreciation	**(2,637,573)**	(305,573)
	4,362,149	4,040,622
	$ 7,962,980	$ 10,536,201
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable – marketing	**$ 3,232,033**	$ 4,487,739
Accounts payable – petroleum and natural gas	**1,271,653**	2,131,797
	4,503,686	6,619,536
Bank loan (Note 3)	**1,003,000**	0
Provision for future site restoration	**40,000**	20,000
Shareholders' equity:		
Share capital (Note 4)	**4,534,960**	4,128,126
Deficit	**(2,118,666)**	(231,461)
	2,416,294	3,896,665
	$ 7,962,980	$ 10,536,201

ON BEHALF OF THE BOARD:

Director

Director

Statements of Operations and Deficit

Years Ended December 31		**1995**		1994
REVENUES:				
Oil and natural gas – net of royalties	**$**	**1,219,255**	$	627,509
Marketing, net (Note 2)		**71,900**		63,586
Interest income		**0**		63,550
		1,291,155		754,645
EXPENSES:				
Operating		**419,522**		363,999
General and administrative		**365,964**		210,994
Interest		**40,874**		0
Depletion and depreciation		**637,000**		302,000
Write-down of oil and gas properties		**1,695,000**		0
Site restoration provision		**20,000**		20,000
		3,178,360		896,993
NET LOSS		**(1,887,205)**		(142,348)
Deficit, beginning of year		**(231,461)**		(89,113)
Deficit, end of year	**$**	**(2,118,666)**	$	(231,461)
NET EARNINGS (LOSS) PER SHARE BASIC AND FULLY DILUTED	**$**	**(0.15)**	$	(0.01)

Statements of Changes in Financial Position

Years Ended December 31	**1995**	1994
Cash provided by (used for)		
OPERATIONS:		
Net loss	**$ (1,887,205)**	$ (142,348)
Items not affecting cash:		
Depletion and depreciation	**637,000**	302,000
Site restoration provision	**20,000**	20,000
Write-down of oil and gas properties	**1,695,000**	0
Funds provided by operations	**464,795**	179,652
Change in non-cash working capital related to operations	**(71,628)**	1,012,120
	393,167	1,191,772
FINANCING:		
Increase in bank loan	**1,003,000**	0
Issue of common shares, net	**406,834**	717,878
Due from officer and employee	**52,571**	(26,617)
	1,462,405	691,261
INVESTMENT:		
Capital expenditures, net	**(2,653,527)**	(4,290,061)
Change in cash	**(797,955)**	(2,407,028)
Cash and term deposits, beginning of year	**797,955**	3,204,983
Cash and term deposits, end of year	**$ 0**	$ 797,955
FUNDS PROVIDED BY OPERATIONS PER SHARE BASIC AND FULLY DILUTED	**$ 0.04**	$ 0.02

Notes to Financial Statements

Years ended December 31, 1995 and 1994

1. SIGNIFICANT ACCOUNTING POLICIES

Joint interest operations:

Exploration, development and production activities are conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Capital assets:

The Company follows the full cost method of accounting under which all costs related to the exploration for and development of oil and gas are capitalized by cost centre, presently only in Canada. The Company carries its petroleum and natural gas properties at the lower of net capitalized cost and net recoverable value. Net capitalized cost is calculated as the net book value of the related assets less the accumulated provisions for deferred income taxes and site restoration costs.

Net recoverable value is limited to the sum of future net revenues from proven properties; and the cost of unproved properties net of provisions for impairment less estimated future financing and administrative expenses and income taxes. Future net revenues are based on prices and costs prevailing at the year-end.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations. As at December 31, 1995 and 1994, oil and gas properties include costs of $634,524 and $347,160 respectively, relating to unproved properties which have been excluded from depletion calculations.

Administrative overhead charges of $262,026 ($186,460 in 1994) directly related to acquisition, exploration and development activities have been capitalized.

Depletion, depreciation and amortization:

Depletion, depreciation and amortization is provided on the unit-of-production method based upon estimated proven reserves. Gross volumes of production and reserves are converted to equivalent units on the basis of estimated relative energy content. The amortizable base is comprised of the oil and gas properties and equipment less the cost of unimpaired unproved properties plus estimated future expenditures to be incurred to develop proven reserves. Estimated future site removal and restoration costs are provided as part of the depletion provision. The accumulated provision for these costs is recorded as a deferred credit.

Income and other taxes:

The Company follows the deferral method of income tax allocation. Under this method, provision is made for income taxes deferred principally as a result of claiming capital cost allowance and exploration and development expenditures for income tax purposes in excess of the amounts recorded for depletion, depreciation in the financial statements. No adjustment is made to deferred income taxes for subsequent changes in income tax rates.

Per share information:

Net earnings and funds provided by operations per share are calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the year ended December 31, 1995 was 12,466,641 (11,226,534 in 1994).

2. NATURAL GAS MARKETING REVENUE RECOGNITION

Net natural gas marketing income is recognized as revenue. Gas sales revenues and gas purchase expenses are recognized when physical delivery has occured. The Company carries out its marketing activities as Riata Energy Marketing. In the normal course of operations the Company enters into contracts to purchase and supply natural gas. As at December 31, 1995 the Company has entered into matched purchase and supply contracts for natural gas to be delivered between April 1, 1995 and March 31, 1998.

The summary of natural gas operations of Riata Energy Marketing is as follows:

	1995	1994
Revenue:		
Gas sales	**$ 47,679,671**	$ 18,947,121
Electricity consulting income	**114,658**	0
	47,794,329	18,947,121
Expenses:		
Gas purchases	**46,857,353**	17,703,722
Transportation and storage	**596,458**	835,666
Gross margin	**340,518**	407,733
General and administrative costs	**268,618**	344,147
	$ 71,900	$ 63,586

3. BANK LOAN

In October 1995, the Company renewed a demand credit facility from a Canadian chartered bank in the amount of $2 million. The credit facility bears interest at prime rate plus 3/4% and is evidenced by a demand debenture secured by a general assignment of accounts receivable, the assignment of certain oil and gas properties, and a floating and fixed charge on all of the assets of the Company. The credit facility arrangement is subject to annual review and the bank has stated that it does not intend to demand repayment of amounts outstanding during the fiscal year ending December 31, 1996.

4. SHARE CAPITAL

Authorized:

Unlimited number of First Preferred shares, issuable in series

Unlimited number of Second Preferred shares, issuable in series

Unlimited number of Common shares, without nominal or par value

Common shares issued:

	Number	Amount
Balance, December 31, 1993	10,950,000	$ 3,410,248
Issued for cash	725,000	54,375
Repurchased	(600,000)	(45,000)
Issue of flow through shares	951,340	713,505
Issue costs	–	(5,002)
Balance, December 31, 1994	12,026,340	4,128,126
Issued on acquisition (i)	430,000	138,147
Issue of flow through shares	700,000	350,000
Issue costs	–	(81,313)
Balance, December 31, 1995	**13,156,340**	**$ 4,534,960**

At December 31, 1995, the Company had granted options which expire in April 2000, to purchase a total of 680,000 common shares at $0.40 per share.

(i) On March 1, 1995 the Company was amalgamated with Cambridge Oil & Gas Ltd. The amalgamation was accounted for as a purchase as follows:

Asset acquired – cash	$ 138,147
Consideration paid – Common shares	$ 138,147

5. INCOME TAXES

At December 31, 1995 the Company had tax pools, share issue costs and losses aggregating approximately $5.5 million available to apply against future years' taxable income.

Corporate Information

Board of Directors

Bill D. Beaton
Managing Director
The Impact Consulting Group
Calgary, Alberta

Ron E. Newman
Chairman
Geophysical Microcomputer Applications (International) Ltd.
Calgary, Alberta

R. Vance Milligan
Senior Oil and Gas Partner
Bennett Jones Verchere
Calgary, Alberta

J. Dan Fry
Vice President and Chief Financial Officer
Riata Resources Ltd.
Calgary, Alberta

Harry H. Range
President and Chief Executive Officer
Riata Resources Ltd.
Calgary, Alberta

Banker

Royal Bank of Canada
11th floor, 335 - 8th Ave. S.W.
Calgary, Alberta T2P 4B9

Auditors

KPMG Peat Marwick Thorne
1200, 205 - 5th Ave. S.W.
Calgary, Alberta T2P 4B9

Legal Counsel

Bennett Jones Verchere
Barristers & Solicitors
4500 Bankers Hall East
855 - 2nd Street S.W.
Calgary, Alberta T2P 4K9

Personnel

Harry H. Range
President and Chief Executive Officer

J. Dan Fry
Vice President and Chief Financial Officer

Philip B. Hodge
Corporate Secretary

Douglas H. Cole
Operations Manager

J. Anne Thomson
Senior Geologist

Francis T.W. Cheung
Controller/Treasurer

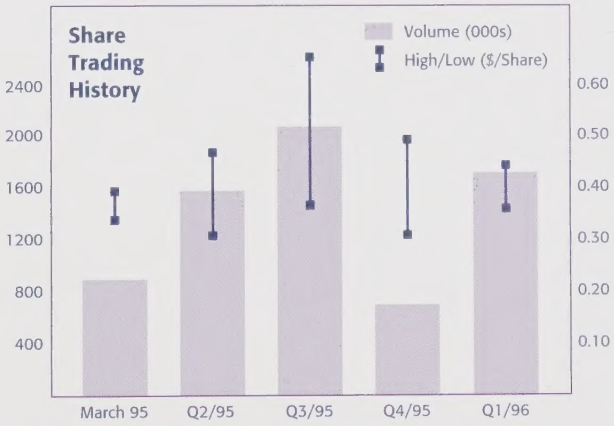
Thyra L. Demetrick
Land Administrator

Corporate Offices

1100, 333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1
Telephone: (403) 264-3555
Facsimile: (403) 264-3570

Stock Listing

Alberta Stock Exchange
Symbol: RRR



Riata Resources Ltd.
1100, 333 - 7th Avenue S.W.
Calgary, Alberta
T2P 2Z1

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